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Thaksin and Budget Allocation: A Study in Political Compromise

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Abstract

As a strong executive, Thaksin Shinawatra brought many changes to Thai politics and public administration, including to budget allocation. This article explains how the Thaksin government procured funds to implement many 'populist' policies. Before Thaksin, budget allocation was dominated by the bureaucracy. Initially, Thaksin attempted to reform the system by removing the prerogative over budget allocation from the bureaucracy. This effort, however, failed due to resistance from the Bureau of the Budget. As a result, budget allocation came to rest upon compromise between government leaders and the Bureau of the Budget. Almost all funds for Thaksin's policies came from the Central Fund and revolving fund within the existing budgeting system. This article also shows that budget allocation under Thaksin did not damage Thailand's public finances.

Introduction

Thaksin Shinawatra, prime minister of Thailand from 2001 to 2006, is considered one of the most powerful leaders in Thai history. Scholars have coined such expressions as Thaksinocracy [Rangsan 2005: 1], Thaksinomics [Rangsan 2005: 13-14] and Thaksinization [McCargo and Ukrist 2005] to describe the unique political circumstances of the Thaksin administration. There has, however, been no serious analysis of budget allocation under Thaksin. An interesting question remains: How did the Thaksin government exercise the power over budgeting needed to implement its many 'populist' policies? This study marks a first attempt to gauge the relationship between political transformation and budget allocation under Thaksin.

During the 2001 election campaign, the Thai Rak Thai Party announced an ambitious policy platform. It did not however, clarify how it would finance its proposals. This invited criticism that Thai Rak Thai policies were fanciful and mere propaganda intended to win the rural vote [Somboon 2000: 16]. After the formation of the Thaksin government, however, almost all campaign pledges became official policy, and they were effectively implemented within one year. Part 1 of this article describes the origins and scope of Thaksin government policies.

When the Thaksin administration took office, it had to follow the same fiscal rules as

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the previous government.¹⁾ It faced, moreover, two important obstacles: the framework of fiscal discipline and the departmental-based character of budget allocation.

On the one hand, the Thai Rak Thai Party's policies were very new and required a large budget. On the other hand, fiscal rules placed strict limits on budget deficits.

The departmental-based system of budget allocation derives partly from the character of public administration in Thailand, in which every department has its own juristic person status. The department, rather than the ministry, is the budget unit and receives its funding directly from the government. Consequently, the annual budget is determined in a bottom-up fashion, and the size of the budget is based on demands from each department. The Thaksin government had to decide which department would be responsible for each policy, since these policies were based on agendas, not functions.

A department's budget, moreover, consists mainly of current expenditures. Between the 1999 and 2006 fiscal years, current expenditures, on average, accounted for 73.2% of the total budget.²⁾ Although the remaining 30% was intended for capital expenditures, it was mainly allocated for durable goods, acquisition of land, and construction. As a result, annual budgets tended to be unresponsive to political initiatives.

In response to these challenges, the Thaksin government pursued two important reforms. First, it transformed the budget system, discussed in Part 2 of this article. Second, it created new methods for budget allocation, discussed in Part 3 below.

Thai scholars have criticized the Thaksin government for a lack of fiscal discipline [Rangsan 2005: 26], for placing public finances at risk³⁾ [Weerasak 2004] and for increasing the national debt [Pasuk and Baker 2004: 130-131]. Pridiyathorn Devakul, Finance Minister after Thaksin's deposal, blamed the former prime minister for reckless spending and huge debts in various government agencies [*Bangkok Post*, February 4, 2007]. The spending created a staggering 150 billion Baht of bad debt that required half of the successor government budget to clear [*Bangkok Post*, February 4, 2007]. Did the Thaksin government really damage Thailand's public finances? Part 4 of this article will assess the effects of budget allocation on the national budget under Thaksin.

1. Origins and Scope of Thaksin Government Policies

The Thaksin government was the first in Thai history to deliver on its dramatic campaign promises.

1) Interview with Mr. Pisit Lee-Atham, former Deputy Minister of Finance, March 11, 2008.

2) Calculated by the author from figures in Thailand's Budget in Brief for various years.

3) Weerasak does not, however, offer any evidence of damage to public finances caused by the Thaksin government.

Its platform consisted of three rural programs: an agrarian debt moratorium, a revolving fund of one million Baht for every village, and a 30 Baht-per-Visit Healthcare Plan. These marked refinements of a National Agenda earlier proclaimed by the Thai Rak Thai Party [Pasuk and Baker 2004: 81-82].

The effective realization of these policies marked a significant departure in Thai politics. Following the September 1992 election, for example, the leading member of a new coalition, the Democrat Party, failed to deliver on its promise to arrange the provincial governorship election because its policies differed from those of the coalition government [Rangsan 1995: 87-89].

By contrast, the Thaksin government kept its promises because of new election rules. The 1997 Constitution changed multiple-member constituencies to a mixture of single-member constituencies and a proportional representation system. This made policies more important than candidate celebrity in determining electoral victory. Thaksin was well aware of the rising significance of policy. In establishing the Thai Rak Thai Party, he expected the party platform to become the blueprint for solving the nation's problems [Walya 1999: 227].

In the 2001 general election, Thai Rak Thai was the only party to differentiate its policies from those of other parties. This helped garner 11,634,495 votes—40.6% of the total—whereas the second place Democrat Party obtained only 7,610,789 votes, or 26.6% of the total.⁴⁾ During the 2005 general election, the Thai Rak Thai Party continued making popular pledges, and other parties attempted to imitate them. The Mahachon Party, for example, stressed advanced social welfare policies, and the Democrat Party promoted free education.

Pasuk and Baker argue that Thaksin worked rapidly on his election promises to court popularity before the Constitutional Court decided on his asset declaration case [Pasuk and Baker 2004: 98]. The better explanation, however, is that Thaksin wanted to maintain voter support.⁵⁾ Following a not guilty verdict from the court, Thaksin announced that he would seek a second four-year term [Pasuk and Baker 2004: 96], this time endeavoring to win an absolute majority. He hoped his party would gain 400 seats in the House of Representatives. The target for the Northeast was set at 130 out of a total 138 seats [McCargo and Ukrist 2005: 85].

In the exhibition “*Jak rak yar soo rak keaw*,”⁶⁾ held in 2004 to highlight Thaksin's achievements, the government outlined ninety policies [Committee editing the annual report on results of the implementation of fundamental state policies 2004]. As Table 1 shows, ten of these cost more

4) Election results as announced by the Election Commission on February 2, 2001. For more details, see [Office of the Election Commission of Thailand 2001].

5) Interview with Mr. Suranand Vejjajiva, former Minister of the Office of the Prime Minister, November 14, 2008.

6) “*Jak rak yar soo rak keaw*,” literally means that the roots of grass become the taproots of a tree. It suggests that Thaksin government policies will bring quality of life (the taproots of a tree) to the poor (the roots of grass).

Table 1. Budget Allocated for Thaksin Policies

Unit: Million Baht

| Policies | Period of Policy Implementation | Amount* |
|---|---------------------------------|---------|
| 1. 30 Baht-per-Visit Healthcare Plan | (FY2002-FY2006) | 154,468 |
| 2. Debt Moratorium for Farmers | (FY2002-FY2005) | 16,335 |
| 3. Scholarship Essay Competition and One Amphur One Scholarship | (FY2004-FY2006) | 13,382 |
| 4. Housing for the Poor | (FY2003-FY2006) | 57,866 |
| 5. Inheritance Pension | (FY2004-FY2006) | 34,100 |
| 6. Peoples' Bank | (FY2003-FY2006) | 27,099 |
| 7. Securitization | (FY2004-FY2005) | 81,474 |
| 8. Small-Medium-Large Village Development Fund | (FY2005-FY2006) | 28,800 |
| 9. Suvarnabhumi Airport | (FY2002-FY2006) | 125,000 |
| 10. Village and Urban Community Fund | (FY2001-FY2006) | 80,000 |

*Figures in this column collected by the author from various sources.

than 10,000 million Baht each. Table 2 shows that Thaksin allocated funds for items that had never before appeared in the budget, at a total cost of 255,700 million Baht.

Together, Tables 1 and 2 reveal the extraordinary financial demands of Thaksin's reforms. If we compare the sum of Tables 1 and 2 with the sum of the annual budget between the 2002 and 2006 fiscal years as shown in Table 3, we see that Thaksin's reforms came to 15.1% of the total budget.

As noted earlier, the Thai annual budget consists mainly of current expenditures, with only a modest portion left for capital investments, which the government allocates at its discretion. Table 3 shows that, between the 2002 and 2006 fiscal years, the Thaksin government's average annual budget consisted of 73.44% current expenditures, 23.22% capital expenditures, and 3.34% for debt repayment. At 15.1% of the total budget, in other words, Thaksin's budgetary demands marked a heavy burden.

2. Budgeting System Reform under Thaksin

Since significant funds were required for Thaksin's policies, Chaturon Chaisaeng⁷⁾ initiated a reform of the budgeting system. Because the Bureau of the Budget had held the upper hand in allocations, politicians had difficulty distributing monies to their constituencies.⁸⁾ The principle aim of reform

7) He was Minister of the Office of the Prime Minister from February 2001 to March 2002. He then served in other Ministerial posts throughout the Thaksin administration.

8) Interview with Mr. Chaturon Chaisaeng, former Minister of the Office of the Prime Minister, November 20, 2008.

Table 2. Budget Allocated to New Items

| | | Unit: Million Baht |
|-------------|--|--------------------|
| Fiscal Year | Budget Items | Amount |
| 2002 | Reserve for Economic Resuscitation | 58,000 |
| 2003 | Expenditure for Economic and Social Restructuring | 16,600 |
| 2004 | Expenditure for Strengthening National Competitiveness and Sustainable Development | 75,500 |
| 2005 | - Expenditure for Strengthening National Competitiveness and Sustainable Development | 23,400 |
| | - Expenditure for Project Implementation according to Provincial Development Strategies | 15,000 |
| 2006 | - Expenditure for Project Implementation according to Provincial Cluster and Provincial Development Strategies | 40,000 |
| | - Expenditure for Tactic Adjustment and Accommodating Change | 27,200 |

Source: [Bureau of the Budget 2005]

Table 3. Composition of the Annual Budget

| | | | | | Unit: Million Baht |
|-------------|------------------|---|---|---|--------------------|
| Fiscal Year | Total Budget (1) | Current Expenditures (2) [Percentage (2): (1)] | Capital Expenditures (3) [Percentage (3): (1)] | Debt Repayment (4) [Percentage (4): (1)] | |
| 2002 | 1,023,000 | 772,605.7 [75.5] | 224,725.4 [22.0] | 25,668.9 [2.5] | |
| 2003 | 999,000 | 753,413.2 [75.4] | 211,535 [21.1] | 34,951.8 [3.5] | |
| 2004 | 1,028,000 | 772,344.4 [75.2] | 221,500.2 [21.5] | 34,155.4 [3.3] | |
| 2005 | 1,200,000 | 847,651.1 [70.6] | 302,272.0 [25.2] | 50,076.3 [4.2] | |
| 2006 | 1,360,000 | 958,477.0 [70.5] | 358,335.8 [26.3] | 43,187.2 [3.2] | |

Source: [Bureau of the Budget 2005]

was to enable allocation to serve the policies and strategies of the government.⁹⁾ A sub-committee¹⁰⁾ chaired by Mr. Chalongsop Susangkarn drafted a budget procedure bill¹¹⁾ to replace Budget Procedure Act B.E. 2502. Since the government's policy statement had mentioned budgeting system reform,¹²⁾ the cabinet had no reason in principle to obstruct the bill.

Under the new budget procedure bill, a Budget Policy Committee was to be established to determine allocations, and the Bureau of the Budget was to become the secretariat of the new committee. Unlike Budget Procedure Act B.E. 2502, the new budget procedure bill did not grant budgetary power to the Bureau of the Budget, but transferred it to the Budget Policy Committee. Table 4 below

9) Interview with Mr. Chaturon Chaisaeng, former Minister of the Office of the Prime Minister, November 20, 2008.

10) This sub-committee was appointed by the Committee for Budgeting System Reform, chaired by Mr. Chaturon.

11) At the time, he was president of the Thailand Development Research Institute.

12) This reference had been inserted by Mr. Chaturon.

Table 4. Power to Regulate the Budget Process: Director General of the Bureau of the Budget Compared to Budget Policy Committee

| 1. Authorities deciding budget allocation | Director General of the Bureau of the Budget | Budget Policy Committee |
|---|---|---|
| 2. Description of powers | <ol style="list-style-type: none"> 1. Require government agencies to submit revenue and expenditure estimates 2. Analyze government agency budgets 3. Decide budget allocations to government agencies under apportionment system 4. Decide period allowed for government agency budgeting under apportionment system | <ol style="list-style-type: none"> 1. Prepare annual and supplemental budget bills 2. Prioritize strategic goals for government agency spending 3. Stipulate principles and methods of the Public Service Agreement 4. Stipulate principles and methods for assessing government agency spending in line with Public Service Agreement 5. Stipulate budgeting system standards 6. Stipulate regulations for government agency spending in line with annual budget act 7. Supervise government agency spending in line with budget spending plan 8. Stipulate standards and prepare report on government agency spending according to Public Service Agreement 9. Stipulate standards for government agency annual reports and budget spending reports 10. Appoint sub-committee to conduct Budget Policy Committee duties 11. Conduct other budget-related tasks under the direction of the Council of Ministers |

compares the budgetary power of the Director General of the Bureau of the Budget under Budget Procedure Act B.E. 2502 with the power of the Budget Policy Committee under the new budget procedure bill.

The drafting of the new budget procedure bill was completed in 2002 and approved by the Council of Ministers in March 2003. The Council of State¹³⁾ was charged with revising the bill

13) It is a government agency, affiliated with the Office of the Prime Minister, in charge of legal affairs for the administration.

and was approached by the Bureau of the Budget several times to make changes. The Bureau of the Budget feared political interference in the budgetary process and was ultimately able to prevent finalization of the bill.¹⁴⁾ The Thaksin government was, consequently, unable to present the bill to parliament for deliberation.

The Bureau of the Budget was able to easily thwart the Thaksin government for two reasons. First, government leaders, who hailed from the business sector, understood problems with the budgetary system differently from the politicians and did not sufficiently comprehend the principles of the new bill. They did not, in other words, offer enough support for the bill to become law.¹⁵⁾ Second, as deliberations by the Council of State wore on, the Bureau of the Budget lobbied government leaders to abandon the bill.¹⁶⁾ According to Mr. Chaturon, “The cabinet approved the bill because the minister who took responsibility made a serious effort. When I was reshuffled to a portfolio that did not have any responsibility for the bill, to Minister of Justice, it was forgotten.”

Although the attempt to reform the budgeting system failed, the Strategic Performance Based Budgeting System that was introduced in the 2002 fiscal year has been in use ever since. Every year, cooperation between the National Economic and Social Development Board and the Bureau of the Budget determines strategies for budget allocation. According to these strategies, every department must coordinate its work and projects with overseeing entities, from the department to the ministry to the nation. Each proposal, therefore, includes budgets allocated to the departments. Table 5 below shows proposals decided for the 2003 fiscal year.

Although the prime minister took an active role in reform, some ministers did not understand the principles of the Strategic Performance Based Budgeting System. Nor did departments have the skills needed to prepare their budgets according to strategic performance. The old budgeting system

Table 5. Budget Allocation for Proposals for Fiscal Year 2003

| Unit: Million Baht | |
|---|------------|
| Proposals | Allocation |
| 1. Economic Resuscitation and Development | 139,254 |
| 2. National Restructuring for Sustainable Competitiveness | 56,410 |
| 3. Social Development, Poverty Resolution and Quality of Life | 458,988 |
| 4. Foreign Affairs and National Security | 86,959 |
| 5. National Administration | 258,290 |

Source: [Bureau of the Budget 2005]

14) Interview with Mr. Suranand Vejjajiva, former Minister of the Office of the Prime Minister, November 14, 2008.

15) Interview with Mr. Chaturon Chaisaeng, former Minister of the Office of the Prime Minister, November 20, 2008.

16) Interview with Mr. Chaturon Chaisaeng, former Minister of the Office of the Prime Minister, November 20, 2008.

did not require departments to prioritize their tasks when making budget requests. The Strategic Performance Based Budgeting System, therefore, failed to meet expectations.¹⁷⁾

A large part of the annual budget, therefore, was prepared using methods of the old budgeting system. Prescribed strategies were inserted as an extension in the annual budget later [Thaksin 2004: 11], and they did not affect allocations. In the 2006 fiscal year, for example, there were ten proposals for allocations. The development of human resources and quality of life obtained the largest share of the budget: 437,772 million Baht. As in the old budgeting system, however, allocations for these proposals came largely through three ministries: the Ministry of Education (199,271 million Baht), Ministry of Public Health (52,194 million Baht) and the National Police Office (34,126 million Baht) [Bureau of the Budget 2005: 10-51].

In practice, the application of Strategic Performance Based Budgeting did not change allocations under the Thaksin administration. The data in Table 6 below show that, except for allocations to the Central Fund and revolving funds, the average ministerial share of allocations under Thaksin did not differ significantly from the previous period, especially for such smaller ministries as the Ministry of Commerce, Ministry of Labor, Ministry of Foreign Affairs, and the Ministry of Industry. The same group of ministries, moreover, ranked in the top five in terms of budget priority before and during the Thaksin administration; this group included the Ministry of Education, Ministry of the Interior, Ministry of Defense, Ministry of Finance, and the Central Fund.¹⁸⁾

The Thaksin government was, in other words, unable to make significant changes to the budgeting system. Allocations continued to be decided in the traditional fashion. But the Bureau of the Budget was able to respond to the government's demand for funds using traditional methods. It successfully resisted budgeting system reform by persuading Thaksin and his key ministers that it would allocate sufficient funds to implement government policies.¹⁹⁾

3. Budget Allocation under Thaksin

The Thaksin government was ultimately able to pursue its policies through the old budgeting system. Most of the proposals in Table 7 below came from the Thai Rak Thai Party platform from the 2001 election. Central to the platform were three rural programs: an agrarian debt moratorium, a Village

17) Interview with Mr. Chaturon Chaisaeng, former Minister of the Office of the Prime Minister, November 20, 2008.

18) The rank order within this group did differ before and during the Thaksin administration. Before Thaksin, the ranking was: the Ministry of Education, Ministry of the Interior, Ministry of Defense, Ministry of Finance, and the Central Fund. Under Thaksin, the ranking shifted to the Central Fund, Ministry of Education, Ministry of Finance, Ministry of the Interior, and the Ministry of Defense.

19) Interview with Mr. Chaturon Chaisaeng, former Minister of the Office of the Prime Minister, November 20, 2008.

Table 6. Share of Budget Allocated to Ministries

| Ministries | Unit: % | |
|---|-----------------|---------------------------------|
| | Before Thaksin* | During Thaksin administration** |
| Central Fund | 10.3 | 18.9 |
| Office of the Prime Minister | 0.9 | 1.4 |
| Defense | 12.8 | 7.0 |
| Finance | 12.3 | 11.2 |
| Foreign Affairs | 0.5 | 0.4 |
| Agriculture and Cooperatives | 8.0 | 4.9 |
| Transportation | 6.5 | 4.3 |
| Commerce | 0.4 | 0.4 |
| Interior | 14.1 | 10.2 |
| Labor | 1.4 | 1.4 |
| Social Development and Human Security*** | — | 0.4 |
| Justice | 0.4 | 0.6 |
| Science | 1.2 | 0.8 |
| Natural Resources and Environment*** | — | 1.2 |
| Education | 16.2 | 16.2 |
| Culture*** | — | 0.2 |
| Public Health | 5.9 | 3.9 |
| Industry | 0.5 | 0.3 |
| University | 3.4 | 1.3 |
| Tourism and Sports*** | — | 0.2 |
| Information Technology and Communication*** | — | 0.3 |
| Energy*** | — | 0.1 |
| Independent Public Agencies | 1.2 | 4.7 |
| Independent Public Bodies | 0.3 | 0.9 |
| State Enterprises | 2.5 | 3.6 |
| Revolving Funds | 1.7 | 5.5 |

* Calculated by author from figures in Annual Budget Acts between 1988 and 2001 fiscal years.

** Calculated by author from figures in Annual Budget Acts between 2002 and 2006 fiscal years.

*** These ministries were established after structural reform of the bureaucracy. Fiscal year 2004 was the first year these ministries received funding.

and Urban Community Fund, and a 30 Baht-per-Visit Healthcare Plan.

The agrarian debt moratorium consisted of two schemes. First was the suspension of farmers' debts—both interest and principal—for three years. Second was debt alleviation: interest on loans was reduced to three percent and additional borrowing was prohibited. The Village and Urban Community Fund was a sum of one million Baht distributed to villages throughout the country to facilitate small loans to rural residents. Under the 30 Baht-per-Visit Healthcare Plan, the Thaksin administration provided universal healthcare for 30 Baht per visit. The government assumed responsibility for all other healthcare expenses.

Table 7. Budget Sources for Thaksin Policies

| Sources of Budget | Policies |
|--|---|
| 1. Central Fund | 1. Small-Medium-Large Village Development Fund |
| | 2. Inheritance Pension |
| | 3. Village and Urban Community Fund |
| 2. Revolving fund | 4. 30 Baht-per-Visit Healthcare Plan |
| 3. State enterprises | |
| 3.1 State enterprise incomes | 5. Scholarship Essay Competition and One Amphur One Scholarship |
| 3.2 Investment project | 6. Suvarnabhumi Airport |
| 3.3 Usual business | 7. Peoples' Bank |
| | 8. Securitization |
| 3.4 Usual business with government subsidies | 9. Housing for the Poor |
| | 10. Debt Moratorium for Farmers |

Table 7 shows that the Central Fund financed three policies, the revolving fund covered one proposal, and state enterprises financed and operated six policies. State enterprises were a convenient source of funding because their investments, which could be regarded as quasi-fiscal activities, did not affect the budget deficit as conventionally measured [Mackenzie and Stella 1996: 1]. The Thaksin government made effective use of such state enterprises as the Krung Thai Bank, the Bank for Agriculture and Agricultural Cooperatives, the Government Housing Bank, and the Government Savings Bank.

The Central Fund is a loophole within the budgeting system, because Article 10 of Budget Procedure Act B.E. 2502 allows the government to dispense monies from the Central Fund separate from departmental budgets. The convenience is that, unlike with departmental budgets, the government does not have to provide details of the Central Fund in the annual budget bill. The prime minister, moreover, has full power to set the limits of the Central Fund, to which the Bureau of the Budget usually accedes [Kanlaya 2007: 35].

Before Thaksin, the Central Fund was used for two objectives. First, it covered common expenditures for all government agencies, such as benefits for government officers. Second, it was used for unexpected outlays that could not be accurately estimated in advance, such as the Contingency Emergency Fund. The composition of the Central Fund changed significantly under Thaksin. In addition to being used regularly as mentioned, more funds were allocated from the budget to the Central Fund. The Thaksin government deployed the Central Fund for two purposes: policy implementation and exercising more fiscal control through extraordinary budget items, as shown in Table 2, Part 1.

Table 8. Composition of the Central Fund

Unit: Million Baht

| Fiscal Year | Regular Central Fund (%) | Policy Implementation (%) | Extraordinary Budget Items (%) | Total (%) |
|-------------|--------------------------|---------------------------|--------------------------------|---------------|
| 1997 | 86,689 (100) | — | — | 86,689 (100) |
| 1998 | 76,590 (100) | — | — | 76,590 (100) |
| 1999 | 76,911 (100) | — | — | 76,911 (100) |
| 2000 | 76,936 (100) | — | — | 76,936 (100) |
| 2001 | 86,912 (100) | — | — | 86,912 (100) |
| 2002 | 112,291 (61.0) | 13,650 (7.4) | 58,000 (31.6) | 183,941 (100) |
| 2003 | 118,234 (80.1) | 12,800 (8.7) | 16,600 (11.2) | 147,634 (100) |
| 2004 | 178,801 (67.3) | 11,525 (4.3) | 75,500 (28.4) | 265,826 (100) |
| 2005 | 191,148 (76.4) | 20,642 (8.3) | 38,400 (15.3) | 250,190 (100) |
| 2006 | 156,885 (61.2) | 32,135 (12.5) | 67,200 (26.3) | 256,220 (100) |

Source: [Bureau of the Budget 2005]

In the 2002 fiscal year, the Central Fund consisted of eighteen items. Fifteen were funded on a regular basis, two were used for policy implementation, and one item was reserved as an extraordinary budget item, intended to increase Thaksin's power over allocations. Table 8 shows the composition of the Central Fund under the Thaksin administration. The magnitude of the Central Fund increased significantly under Thaksin. Its share of the total budget rose from 9.6% in the 2001 fiscal year to 18.8% in 2006, and it reached its peak in 2004 of 22.9% of the total budget.²⁰⁾

The Central Fund was used to finance three policies: the Small-Medium-Large Village Development Fund, the Inheritance Pension for Living, and the Village and Urban Community Fund. Extraordinary budget items were reserved as a lump-sum for the Thaksin government to spend at its discretion. These items were called “Ngob Phee,” or “budget of the ghost,” because they were unidentifiable, and they varied from year to year.

The Thaksin cabinet decided on details of the extraordinary budget after parliamentary approval of the annual budget bill. Interestingly, many projects that received funds from departments through the regular budget process also obtained support from the extraordinary budget. For instance, in the 2002 fiscal year, a “Reserve for Economic Resuscitation” fund was allocated to projects covered by regular departments, e.g., local roads construction (Department of Public Works), road maintenance (Department of Highways), and police housing construction (National Police Office) [Chitlada n.d.: 12-16].

The Thaksin government deployed the revolving fund in similar ways as the Central Fund.

20) Calculated by the author from figures in the Annual Budget Acts and the Additional Budget Acts. For the 2004 fiscal year, the mid-year additional budget was included in the calculation.

With full power to determine allocations in a revolving fund, Thaksin established a new one, the National Health Security Fund, to implement the 30 Baht-per-Visit Healthcare Plan. Consequently, monies allocated to the revolving fund under Thaksin increased from 3.9% of the total in the 2001 fiscal year to 5.7% in 2006.²¹⁾

It can be argued that budget allocation under Thaksin was based on a compromise between the Bureau of the Budget and government leaders. Although the Bureau of the Budget had lobbied to keep the budgeting system unchanged, it also supported Thaksin policies by allowing funding through the Central Fund and revolving fund. Thaksin relied heavily on these funds as the principal means around the traditional practice of distributing monies through departments, in which the Bureau of the Budget retained the upper hand.

The Central Fund was also critical to the Thaksin government for its convenience. Thaksin explained that “under the inflexible budgeting system, the government reserved a small amount of money—one or two percent of the total budget—to cope with some difficulties” [Thaksin 2004: 12]. The idea was based on a business management concept, because “there are no organizations in the world that do not reserve cash for special projects that they want to undertake or for emergencies.”²²⁾ In other words, an important part of governance is handling urgent ad hoc tasks. The old budgeting system, however, could not muster the financial resources required in an emergency. The Thaksin government needed the Central Fund in part to solve urgent problems.²³⁾

4. Effects of Budget Allocation on Public Finances under Thaksin

The varied means of allocation used by the Thaksin government give the appearance of reckless spending. The empirical data indicate, however, that Thailand’s macro economy was not at risk under Thaksin. The data in Table 9 below reveal that total government debt did not increase significantly. Government debt in the last year of the Thaksin administration differed little from either the first year or last year of the previous government. It stood at 25% of GDP in 2006 compared to 24.8 and 23.5% in 2001 and 2000, respectively. The Thaksin government was, moreover, able to transform a deficit into a balanced budget in the 2005 fiscal year, as shown in Table 10.

There are three important fiscal rules in Thailand, which are determined primarily by the Constitution, Treasury Reserve Act B.E. 2491, and Budget Procedure Act B.E. 2502. The first rule requires legislative approval for spending. The second regulates national revenues and expenditures:

21) Calculated by the author from figures in the Annual Budget Acts.

22) Interview with Mr. Suranand Vejjajiva, former Minister of the Office of the Prime Minister, November 14, 2008.

23) Interview with Mr. Chaturon Chaisaeng, former Minister of the Office of the Prime Minister, November 20, 2008.

Table 9. Internal and External Government Debt

Unit: Million Baht

| Year | Government Debt | GDP at current prices | Government Debt Share of GDP* (%) |
|--------|-----------------|-----------------------|-----------------------------------|
| 1997 | 325,537 | 4,732,600 | 6.9 |
| 1998** | 694,206 | 4,626,400 | 15.0 |
| 1999 | 991,104 | 4,637,000 | 21.4 |
| 2000 | 1,156,584 | 4,922,700 | 23.5 |
| 2001 | 1,272,856 | 5,133,500 | 24.8 |
| 2002 | 1,691,158 | 5,450,600 | 31.0 |
| 2003 | 1,631,124 | 5,917,300 | 27.6 |
| 2004 | 1,810,439 | 6,489,400 | 27.9 |
| 2005 | 1,857,247 | 7,095,600 | 26.2 |
| 2006 | 1,954,038 | 7,830,300 | 25.0 |

* Calculated by author.

** In 1998 government debt rose sharply following the 1997 economic crisis.

Source: [Bank of Thailand 2008]

Table 10. Budget Deficits

Unit: Million Baht

| Fiscal Year | Total Budget | Estimated Revenues | Budget Deficit |
|-------------|--------------|--------------------|----------------|
| 1997 | 984,000 | 984,000 | — |
| 1998* | 982,000 | 982,000 | — |
| 1999 | 825,000 | 800,000 | 25,000 |
| 2000 | 860,000 | 750,000 | 110,000 |
| 2001 | 910,000 | 805,000 | 105,000 |
| 2002 | 1,023,000 | 823,000 | 200,000 |
| 2003 | 999,000 | 805,000 | 194,000 |
| 2004 | 1,028,000 | 928,100 | 99,900 |
| 2005 | 1,200,000 | 1,200,000 | — |
| 2006 | 1,360,000 | 1,360,000 | — |

* As a result of the economic crisis, the total budget for the 1998 fiscal year was reduced to 800,000 million Baht, and estimated revenues were reduced to 782,020 million Baht. The budget that year ultimately showed a deficit of 17,980 million Baht.

Source: [Bureau of the Budget 2005]

all transactions must be conducted through the Treasury Reserve Account. The third and most important rule states that the annual budget deficit cannot exceed 20% of the total plus 80% of expenditures for debt repayment. The Thaksin government did not violate any of these rules.

Steady increases in the annual budget under Thaksin were in keeping with continued economic growth.²⁴⁾ Actual government revenues, moreover, exceeded estimates in most fiscal years. Of the

24) Between 2002 and 2006, the average growth rate of the annual budget was 7.7%, whereas the average GDP growth rate was 5.7%. The growth rate of the annual budget is calculated from figures in the Annual Budget Acts. The GDP growth rate comes from the Bank of Thailand. For more details, see [Bank of Thailand 2008].

three revenue-collecting departments—the Revenue Department, the Excise Department, and the Customs Department—the Revenue Department was most important for increasing tax income.

If the increase in tax income followed economic growth, it also confirmed Revenue Department projections. The Revenue Department underwent two important changes with Thaksin: restructuring, and a new method of tax collection. Before restructuring, tax collection within the Revenue Department was divided between the central administration and the provinces. The central administration was charged with tax collection in Bangkok, where many area offices were located. Provincial Revenue Offices in each province took responsibility for local revenues. The Heads of these offices answered to provincial governors. Following restructuring, the Revenue Department was centralized and Provincial Revenue Offices abolished. Tax collection was consolidated into one unit under the central administration [Revenue Department 2003: 38]. Provincial offices became area offices reporting directly, like area offices in Bangkok, to the Director General of the Revenue Department.

The most important cause of increased tax revenues was a change in the method of tax collection. In the past, punishment through auditing of prior payments was the preferred weapon against tax evasion. The Thaksin administration, however, introduced moral suasion. The Revenue Department closely monitored taxpayers, especially businesses, and persuaded them to make accurate payments. Meanwhile, audits were reduced [Revenue Department 2003: 48, 2004: 50]. Taxpayers responded well to this change, and tax revenue increased.

The new system saw officers from the Revenue Department dispatched to business firms to check the accuracy of payments. The officers used data from other sources, e.g., electricity and water usage and number of employees registered with the Social Security Office, to assess the actual incomes of the firms [*Prachachartturakit*, May 13, 2005]. The Revenue Department established the Bureau of Large Business Tax Administration to supervise large taxpayers. This Bureau provided legal services and individual consultation for each firm [Revenue Department 2004: 33].

The Revenue Department also succeeded in increasing the number of taxpayers. In 2004, it persuaded 201,329 new taxpayers [Ministry of Finance 2004: 2] to register in its database of seven million taxpayers. As a result of more efficient collection, tax revenues increased continually under Thaksin. Table 11 shows that all major forms of tax revenue—personal income tax, corporate tax, and value added tax—increased every fiscal year.

Conclusion

Popular policies and dramatic reforms made Thaksin seem a strong executive. The government was

Table 11. Tax Revenues Collected by Revenue Department

Unit: Million Baht

| Tax Type | Fiscal Year 2002 | Fiscal Year 2003 | Fiscal Year 2004 | Fiscal Year 2005 | Fiscal Year 2006 |
|-----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Personal Income Tax | 108,371 | 117,309 | 135,220 | 147,395 | 170,087 |
| Corporate Tax | 170,415 | 208,859 | 261,925 | 329,558 | 374,818 |
| Value Added Tax | 228,196 | 261,306 | 316,103 | 385,718 | 417,770 |
| Specific Business Tax | 13,715 | 12,757 | 20,033 | 26,307 | 30,625 |
| Petroleum Tax | 19,128 | 21,773 | 31,935 | 41,178 | 56,524 |
| Stamp Duty | 4,122 | 5,348 | 6,821 | 6,821 | 7,260 |
| Other Income | 334 | 331 | 279 | 266 | 243 |
| Total | 544,281 | 627,682 | 772,316 | 937,243 | 1,057,327 |

Source: [Revenue Department]

not, however, able to establish full control over the budget. Thaksin failed to create a Budget Policy Committee, which would have transferred the power of allocation from the Bureau of the Budget to Thailand's politicians.

Thaksin did, however, take advantage of a loophole in the old budgeting system to finance its policies. Rather than work exclusively through the departments as usual, the government made good use of the Central Fund and revolving fund, over which it had full power. It also looked to state enterprises. Extraordinary budget items added to the Central Fund marked the final powerful tool in the government's effort to finance its policies.

Thaksin's methods for budget allocation were not, however, institutionalized. Following the collapse of his government, some of these methods were abandoned. The share of the total budget allocated to the Central Fund decreased from 18.8% in the 2006 fiscal year, the last annual budget prepared by Thaksin, to 12.6, 14.6, and 13.6% in 2007, 2008, and 2009,²⁵⁾ respectively.²⁶⁾ Extraordinary budget items, or *Ngob Phee*, which had nicely served Thailand's politicians, were removed from the budget in the 2007 fiscal year. By contrast, funds allocated to the Ministry of Defense, which served the demands of the bureaucracy, increased. Although the growing share of defense monies does not seem permanent, it rose from 6.3% of the total budget in the 2006 fiscal year to 7.3 and 8.6% in 2007 and 2008, respectively.²⁷⁾

25) Even though the annual budget for the 2009 fiscal year was prepared by the Samak government led by the Palang Prachachon Party, most ministers came from the Thai Rak Thai Party. The Central Fund is much less significant now than in the 2006 fiscal year.

26) Calculated by the author from figures in the Annual Budget Acts.

27) Calculated by the author from figures in the Annual Budget Acts.

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